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Control: 6131
Rec'd: July 11, 1961
1:33 p.m.

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FADRC FOI CASE NO. 50

DEPARTMENT OF STATE A/CDC/HR
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FROM: Accra

TO: Secretary of State

NO: 54, July 10, 5 p.m. (SECTION ONE OF TWO)

Director Robert Jackson gave UK HICOM Snelling and me following briefing on recent developments in Volta situation:

1. Gbedemah cabled Nkrumah from Washington July 3 that he had achieved satisfactory agreement on all points with IBRD and returned to Accra with draft.

2. Encouraged by statements from his new "economic advisor", Dr. Nicholas Kaldor of Cambridge University, that Ghana was in much better financial shape than Gbedemah and Jackson had reported, Nkrumah took issue with clauses of draft agreement requiring 8.6 million pound limitation on annual debt service, 40 million pound limitation on annual development expenditure (besides Volta) and requirement that GOGhana freeze 35 million as its contribution to project. Nkrumah told Gbedemah (1) that Kaldor believed Ghana could finance higher rate of development expenditure, (2) that figure of 35 million for Ghana contribution was too high in view of reduced cost estimates and (3) that Ghana contribution should be budgeted for annually rather than frozen in advance. He accused Gbedemah of subterfuge in claiming to have negotiated "satisfactory" agreement and told Gbedemah he was planning to send Kaldor, Budget Director Philips and Government statistician Omaboe to Washington immediately to renegotiate with World Bank. Gbedemah thereupon threatened to resign on grounds implication he incompetent. Nkrumah temporized by saying Kaldor team would be held off until Gbedemah could complete exchange of letters with IBRD on disputed clauses.

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-2- 54, July 10, 5 p.m. (SECTION ONE OF TWO), from: Accra

3. When Gbedemah drafted letter, Nkrumah (again on advice of Kaldor) deleted portion which gave assurances that foreign exchange portion of GOGhana contribution (i.e. 20 of 33 million pounds involved) would be set aside annually from GOGhana foreign exchange earnings. The deletion in effect meant that GOGhana would not finance this portion of its contribution from its own resources but presumably from further foreign borrowing (possibly from USSR).

4. When revised version presented to Gbedemah for his signature (minutes after Nkrumah departed for USSR), he refused to sign on grounds (1) deletion constituted breach of faith with IBRD, (2) redraft completely undermined Gbedemah's position and (3) it would necessitate new negotiations with Valco because interest charges on additional borrowings of 20 million pounds would raise cost of power. He thereupon retired to chicken farm for 24 hours of contemplation. Upon return this morning, Gbedemah found that Nkrumah, contrary to agreed arrangement, had left behind directive ordering Kaldor team to proceed to Washington forthwith. In meantime Development Secretariat had produced secret report showing that present debt service burden (for FY 1962) was not 4.2 million pounds as everyone had believed but 8.3 million and possibility exists there are still further obligations not yet uncovered. Upon hearing this, Kaldor (who had never taken pains to ensure that he had all facts) accused everyone from Jackson on down of feeding him incomplete data and departed Accra for London in high dudgeon without disturbing Nkrumah's optimistic understanding of situation. Thus Nkrumah now in Moscow operating from faulty information as to Ghana's fiscal stability.

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Control: 6138
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1:59 p.m.

1961 JUL 12 AM 5 AF MESSAGE CENTER

FROM: Accra

TO: Secretary of State

NO: 54, July 10, 5 p.m. (SECTION TWO OF TWO)

In meeting of Presidential Commission this morning Gbedemah, on point of resigning, agreed reconsider if Kalbor would write him letter apologizing for ill-informed interference in conduct Volta negotiations. Gbedemah will telephone Knapp of IBRD July 12 stating that certain points in drafting agreement require further discussion and suggesting that Kaldor team plus Gbedemah travel to Washington July 20 for this purpose. Jackson feels it would be helpful if Department would urge Knapp to welcome Gbedemah's return.

Jackson also urges Department recommend bank be as flexible as possible concerning annual debt service limit (since present burden already approaches target figure and still rising) and on annual development expenditure in view possibility sound projects exceeding recommended limit. He also urges Department support flexible position on freezing of Ghana contribution. He feels Ghana should not be asked to freeze more than 20 million required for overseas expenditure and leave balance of 11 million (plus 2 million already spent) to be budgeted for annually. Jackson recommends bank attempt find more diplomatic wording for requirement that Ghana establish separate electricity department for Volta project and clear nomination of Executive Director with bank.

Presidential Commission will cable Nkrumah in Moscow that Kaldor team being sent but will omit mention that Gbedemah accompanying. Jackson believes that Kaldor now has more realistic understanding of situation and upon reconciliation with Gbedemah may adopt more flexible attitude toward bank conditions. Jackson and Snelling say that Kaldor is left wing but not

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but not subversive. However, he has been strong in his attacks on IBRD and on foreign private investors in his advice to Nkrumah. Department may wish seek chance to have discussions with him when he arrives July 20. In meantime Nkrumah has decided postpone formal signing of contract with Impresit and will seek to extend present conditional arrangement to permit continuation mobilization program.

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